THE SOCIAL CONTROL OF THE ACQUISITION OF WEALTH

By Edward Cary Hayes
The University of Illinois

A generation ago the upshot and conclusion of both economics and sociology could almost be summed up in two words: *laissez faire.* Economists following the lead of Adam Smith and sociologists following the lead of Herbert Spencer taught that any attempt at social control of the acquisition of wealth would be absurd meddling and muddling, destined to make things worse instead of better. The social scientist believed that he was only a little less helpless to control the phenomena he studied than the astronomer, who can observe and explain the movements of the stars but would make himself ridiculous if he should attempt to influence their courses.

The socialists threw this doctrine of *laissez faire* to the winds. Economists and sociologists in general have not become socialists, but they have observed that in most sciences increase of knowledge has made possible new forms of control. Before the time of Benjamin Franklin a *laissez-faire* policy with reference to lightning was eminently justified, but now a policy of control with respect to electricity at high voltages is at many points successfully carried out. The early attempts at social control of economic processes were like playing with lightning. We are sure that today we should not make *the same* blunders, and begin to have the courage to think that here as elsewhere in mundane affairs knowledge is power. We believe in very cautious exercise of this new power, yet we begin to suspect that, with our present insight into economic and social processes, to continue to preach the doctrine of *laissez faire* is little better than poltroonery and cowardice and shirking the duty of social leadership.

Unlike mere agitators, nearly all economists and sociologists are in an attitude of extreme circumspection in regard to the exercise of new-found powers of social control. We are not willing to countenance any absurd and premature ventures. But neither are we willing to be poltroons—as the men of Columbus's day would have been if they had refused to put to sea after the mariner's compass had been invented.

There has always been a philosophy to justify the *status quo,*

and, as a rule, every established *status quo* was good until it was outgrown. All economists and sociologists recognize, for instance, that slavery has had a necessary and useful place in social history. And it was defended by a philosophy that was proclaimed by Plato and Aristotle. Similarly, the centralized rule of kings was essential during the passage of society out of the bloody turmoil of the Dark Ages; and that institution was defended by the doctrine of "the divine right of kings," and to call that doctrine in question in that day made one a traitor and an intellectual outcast. Later, revolutionary democracy played its essential rôle, and Rousseau, Jefferson, and their colleagues gave to it intellectual acceptance in France and in America by substituting for "the divine right of kings," "the social contract theory." All these philosophies were false, but each served to defend the social policy that was expedient in its day. And in the recent past exploitative individualism, by organizing the agencies of production, has played a constructive rôle in social evolution as slavery, unlimited monarchy, and revolutionary democracy did in their time, and like them it illustrates the generalization that the established social policy of any age has always the backing of an appropriate philosophy. The philosophy of exploitative individualism is the doctrine of *laissez faire.*

The doctrine of *laissez faire* has been sustained by very subtle but specious arguments, such as the dogmatic optimism of the Physiocrats, the Malthusian "iron law," the "wage fund theory," and the "residual claimant theory." Economists have exposed the speciousness of one only to replace it with another equally fallacious, and have always been willing to acknowledge the fallacy of all except the last, which was waiting its turn to be exposed. A few minutes later I hope to show that the "specific productivity theory," just now in vogue, though interesting as a speculative doctrine, is as futile as any of its predecessors as a defense for an unmitigated policy of *laissez faire.*

Before going any further let me make it clear that the social control of the acquisition of wealth which we are considering does not aim at equality of possessions. Equality of possessions is neither possible nor desirable. Aristotle was right in saying that justice is not absolute equality but an equality between proportions. It is proportionate, both to their deserts and to their needs, for some men to have more and others to have less. Moreover, no form of social control ever ought to be or can be the sole factor

in determining how much more or how much less men will have. That will always depend largely upon the personal qualities of the different individuals.

Having said so much by way of introduction, I will spend the remainder of the time allotted me upon three propositions:

First, while rightly and inevitably there will be differences between the possessions of different men, these inequalities may become excessive and in fact they have become excessive to the point of absurdity.

Second, without the exercise of social control over the acquisition of wealth, such excessive inequalities are inevitable and not only sure to continue but likely to grow worse.

Third, the time has come when we are justified in hoping for a considerable measure of success in a courageous and constructive program for the social control of the acquisition of wealth.

Our first proposition, then, is that the inequalities in the distribution of wealth have become excessive to the point of absurdity. I shall not base the argument for this proposition upon the condition of "the submerged tenth." Many who have given prolonged attention to the facts assert that the condition of the submerged tenth affords a powerful argument in support of our proposition, but just how powerful that argument is we cannot estimate here, because there is not time to discuss the question of how far the poverty of the submerged tenth is due to their physical, mental, and moral defects, or how far, on the other hand, their physical, mental, and moral defects are due to poverty. The condition of the submerged tenth, therefore, however important it might be in a more prolonged discussion, may be passed over for the present occasion. Neither do I base the argument on the condition of the most skilled or best organized classes of laborers. There are three other classes whose condition more unmistakably, and quite strikingly enough, exhibits the fact that inequalities in the distribution of wealth have become excessive to the point of absurdity.

The first of these three classes is the great mass of physically, mentally, and morally normal laborers who are engaged in unskilled or semi-skilled employments. I do not refer to those who will not work or who cannot hold a job, but to those who do work when they can get a job—to the normal rank and file of ordinary privates in our great industrial army.

No competent student of the subject thinks of denying that

millions of Americans, who are neither lazy nor feeble-minded but industrious and normal, fail, even when they have regular employment, to earn enough to support their families so as to have a reasonable chance of attaining the physical, moral, and cultural values and satisfactions of human life; and that, when any of these millions of wage-earners have children who are too small to go to work in the factories or to allow their mothers to do so, these children, by millions, are obliged to live under such conditions that, while some of them retain their decency and competence, it is a foregone conclusion that armies of them will sink to a place among the physical and moral derelicts of the submerged tenth.

The unbearableness of this condition of things in a democracy as rich as ours is sufficiently obvious upon any theory of the quality of common men. I merely remark in passing, and not as in any way essential to the argument, that in the opinion of nearly all anthropologists, and of such of our own number as Professor Veblen and Professor Thomas, "native gifts of intelligence, sensibility, and personal force will occur as frequently in proportion to their aggregate numbers among the common mass" as among the children of the economically well-to-do. And I also recall parenthetically the work of Professor Ward to the effect that more than three-fourths of the exalted talent born into the world fails to make any notable contribution to civilization because of lack of opportunity for the personal development of its possessors. However low our estimate of common but normal humanity, not until the last reasonable effort has been made to alter it should any of us accept as final a state of social organization or disorganization which is responsible every year for the otherwise needless death of hundreds of thousands of the usual sort of men, women, and children and for the fact that millions in each generation bring into the world the common normal heritage of capacity for life, liberty, and the pursuit of happiness and go out of the world without ever having realized any due modicum of the happiness and worth which they might have attained. At present in America it is as true of human life as it is of the "word of the Kingdom" that some falls in stony places and some by the wayside where the unclean fowls of the air devour it. The agricultural scientists say that the crop of the most fertile state in the corn belt might be doubled by better cultivation. It is at least as well within bounds to assert that the harvest of joy and worth in human life in our nation as a whole might be doubled if we would better prepare the economic and social soil in which life grows.

The second class that unmistakably exhibits the fact that inequalities in the distribution of wealth have become excessive to the point of absurdity is composed of the very rich. It is true that most of their vast wealth is invested in productive industry. But it has been demonstrated that by the device of corporate organization small investments owned by many can be effectively administered in industry; and concentrated control of the nation's capital places in the hands of a single class power over the common welfare which imperils, if it does not destroy, democratic equality of opportunity. Moreover, the great amounts of invested capital held by the rich yield a stream of income by which they are inundated and from which it is impossible to extract the full utility. Consequently our whole economic and social system may be compared with a man who is sick with excessive blood pressure in the head to the point of apoplexy and at the same time with anemia in the limbs to the point of degeneracy of the tissues.

According to Professor King's recent investigation[1] 65 per cent of our people are poor, that is, they have little or no property except their clothes and some cheap furniture and their average annual income is less than $200 per capita; 33 per cent of our people compose the middle class in which each man leaves at death from one to forty thousand dollars' worth of property; the remaining 2 per cent comprise the rich and the very rich, and these 2 per cent own almost one and a half times as much as the other 98 per cent together. Dr. Spahr[2] calculated that the richest 1 per cent of American families, by virtue of their ownership of property, were in a position to receive *without* work as much as the poorest 50 per cent of American families receive *by* work. This calculation was made by Dr. Spahr in 1896, and Dr. King believes that the concentration of wealth and income has now grown distinctly worse than that.

The absurdity of our present distribution of wealth, or rather of our failure to distribute it, and the need for some form of control of the acquisition of wealth are illustrated by the rapidity with which property is collected in the hands of the managers of industry. We are popularly supposed to have one billionaire. What is a billion? There have not been a billion minutes since Christ was born. To accumulate a billion dollars at the

[1] W. I. King, *The Wealth and Income of the People of the United States* (New York, 1915), pp. 64 f. and chap. x.

[2] C. B. Spahr, *The Present Distribution of Wealth in the United States* (New York, 1896), p. 69.

rate of $10,000 a year would require a thousand centuries. If economic tendencies were working out their nice adjustment in accordance with the specific productivity theory, which is the present formulation of the doctrine of *laissez faire*, there would be no such thing as pure profits. Yet even one of our moderately successful multimillionaires who acquires a fortune equal to only 2 per cent of that which Mr. Rockefeller is supposed to possess has a sum the accumulation of which at the rate of $10,000 a year would require a longer time than has elapsed since the birth of Christ. So much for the poor and the rich.

The third class of our people whose condition illustrates the absurdity of our present distribution of wealth is the so-called middle class.

This class, as I have already stated, may be thought of as comprising about 33 per cent of our population. Men of this class at death leave property worth from one to forty thousand dollars. This middle class includes many of the skilled and organized laborers, the great bulk of the retail business men, and of the teachers, ministers, newspaper men, artists, musicians, scientists, lawyers, and doctors, that is to say, the vast majority of those who do all the higher grades of work except manufacturing, banking, and other kinds of big business. Our present social organization confers as a special privilege upon those who engage in business the opportunity to acquire twice or ten times or a hundred times or a thousand times as much as men of equal ability in other walks of life. The middle class contains those who are sufficiently well-to-do to excite the emulation of ambitious and able youth, and not so rich as to excite instead hopeless envy; rich enough to be inclined to cautious conservatism, and not rich enough to pervert the organs of public opinion and social control; rich enough to attain security and culture, and not rich enough to be plunged into wasteful extravagance and decadent excesses. One who has regard for the general social welfare will look upon the decline of the middle class as one of the worst possible forms of failure in the distribution of wealth. Concerning this middle class I will pause to say only this, that as compared with the very rich, and even as compared with the moderately rich, the position of the middle class is growing worse. The poor are in a far more pitiful plight, but, though they are so poor, they are not rapidly growing poorer; on the other hand, in the present concentration of wealth in the possession of 2 per cent of the population, it is the middle class who are suffering the greatest decline in relative position.

Our first proposition, that the inequalities in the distribution of wealth have become excessive to the point of absurdity, has now been defended. It has been defended with cautious conservatism of statement, and many of you can emphasize and substantiate the proposition by additional evidence drawn from your own knowledge.

We pass now to the second proposition, namely, that without the exercise of social control of the distribution of wealth excessive inequalities are inevitable and not only sure to continue but likely to grow worse.

The distribution of wealth according to unregulated economic tendency is nothing more nor less than distribution according to bargaining power. Bargaining power depends upon utility *with scarcity*. Utility, however great, without scarcity confers no bargaining power. Under ordinary conditions the atmosphere we breathe, though its utility is measureless, has less bargaining value than a bottle of smelling-salts, and the light and heat of the sun, upon which all life depends, has less bargaining value than a tallow candle or a match, because the atmosphere and the sunlight are not scarce. Likewise common labor, just because it is common, has little bargaining power. Only some form of artificial scarcity can give to air or sunlight or common labor a bargaining value proportionate to its utility. If you take a man by the throat and tell him that you will not stop choking him till he gives up every dollar he owns, you create an artificial scarcity of air, and air acquires a bargaining power proportionate to its utility. Similarly, if there should be a general strike that strangled industry it would confer on labor a bargaining power proportionate to its utility. But under unregulated economic tendency few things are so cheap as common human life, except the air we breathe and the light of heaven.

Labor is not a commodity to be bought and sold. It is a man working. It is the basis of a claim to one man's share in the proceeds of industry. Condillac pointed out that "the wage earner can not exercise his rightful claim to his own work, but simply surrenders the claim in return for a money price."[3]

The scarcity without which there is no bargaining power may be due either to limitation of the supply by nature, as in the case of diamonds, gold, and cornlands, or to cost of production, as in

[3] Charles Gide and Charles Rist, *History of Economic Doctrines,* (Heath, Boston), p. 49.

the case of manufactured commodities. The supply of human life is not definitely limited either by nature or by cost of production. In the case of any *commodity*, the supply of which is dependent upon human volition, there is a normal bargaining price which is protected by the cost of production. For labor there is no such thing as a normal price protected by the cost of production. When the price of a manufactured article falls below the cost of production, manufacturers curtail their output, or store it in warehouses, and so produce a scarcity which restores prices if the commodity has utility as a staple article. But the laborer cannot store his labor for future sale—if not used today it is gone forever—and the only way he could curtail the output would be to commit suicide. In fact, when times are bad and wages fall, the supply of labor offered, that is, the number of men seeking jobs, instead of being diminished is actually increased. If the fall of wages in any country or any industry is permanent, the standard of living is undermined, and the standard of living is the only hoped-for check upon the birth of children. Consequently in the second generation the supply of laborers, badly reared in abodes of misery and seeking the lowest and worst paid forms of labor, is still further increased. Thus under the uncontrolled operation of economic tendency the mass of misery at the bottom of the ladder tends to grow. Today we are suffering from this result and have more of the undervitalized, stimulant-craving, untrained, and incompetent, and a smaller proportion of capable and efficient laborers than we should have if custom and law had enabled the laborers of preceding generations in Europe and America to maintain the proper standard of living. Economic tendency, uncontrolled by custom and law, cannot be expected to produce any decent approximation to a just distribution of wealth, because it is nothing less than the operation of bargaining power, which depends upon scarcity, and common labor is common and not scarce. We have assumed that unregulated bargaining power is a form of might that automatically makes right. It does not make right, it makes wrongs.

In the second place, unregulated economic tendency can be depended upon to produce an unjust, unreasonable, and intolerable distribution of wealth because uncontrolled economic tendency produces centralized business organization. Within limits this is a good thing from the point of view of efficiency in production. It is the survival of the fittest. The interests of all classes in society

are one in calling for the greatest efficiency in production. But the interests of different classes clash when it comes to dividing the product. In the division of material goods what one gets another does not get. A high degree of organization *under unregulated economic tendency* means efficiency in production and injustice in distribution. A high degree of organization implies concentration of control; it gives to a few men who are on the inside of the management power to exploit the laborers, the investors, and the consumers.

First, the laborers are exploited because the management sells the entire output of industry and receives the entire price, and the laborers must get out of the hands of the management such a fraction of that total return as they can by force of bargaining power.

Second, the small investors are exploited, perhaps less than the laborers or the consumers. They are more silent under their losses, partly because they hope themselves to profit by "business methods." The fact of their losses is illustrated by the relative decline in economic position of the middle class. Misleading prospectuses and more misleading newspaper reports, watered stock, bonuses, manipulated fluctuation in the value of securities, and other devices less easy to indicate in a phrase enable the insiders to pile up their millions.

Third, the consumers are exploited. Except in war time it costs, according to season, anywhere from 2⅓ cents to 3¾ cents to produce a can of sardines; but the customary retail price remains at 5 cents a can year in and year out. Except in time of war bread is 5 cents a loaf irrespective of the price of wheat, and beer 5 cents a glass irrespective of the price of barley. Thus a large class of articles, bought for daily use by people in general, may fluctuate in cost of production even as much as 50 per cent without effect upon the retail price. Another large and important class of articles change in retail price by jumps of 25 cents, 50 cents, $1.00 and $5.00. Thus an increase of 10 cents or even 4 cents in the cost of an article at the mill has been followed by an increase of 50 cents to the consumer, and an increase of 37 cents at the mill has been followed by an increase of $1.00 to the consumer. It is true that in some instances a small per cent of decline in the cost of production is followed by a reduction of 25 cents or 50 cents or some other "round" sum in the price to the consumer. But this also indicates that the price charged before the reduction

was excessive, and both classes of facts justify the statement of Professor Henry C. Emery, based upon information gathered while a member of the United States Tariff Board, that "the relation of the price which the producer receives for his commodity to the price which the consumer pays for it seems to follow no rule of logic."[4] On October 8, the price of a pound loaf of bread in this country varied from 6 to 15 cents, the high price being in the great food market of the Middle West and the low price in the manufacturing district of the East. Perhaps no other equally expensive article is so often purchased for American homes as a piano. I am credibly informed that a $300.00 piano costs $65.00 at the factory. That wide margin between cost of production and consumer's price which "seems to follow no rule of logic" is a field of operation for those who sit in the seats of management. Who shall estimate how many hundreds of millions annually this condition invites the managers to transfer from the pockets of the consuming public to their own bank accounts, and will as long as there is no social control, and "business is business."

We have briefly pointed out two reasons why unregulated economic tendency cannot be expected to result in a tolerable distribution of wealth. The first reason is that distribution according to economic tendency is distribution according to sheer bargaining power, and that common labor, like light and air, has not bargaining power in proportion to its utility, nor proportionate to any tolerable basis of distribution, that labor is not a commodity to be bargained for, but a man working, and the basis of a claim in equity to a share in the product of industry. The second reason is that economic tendency is toward organization and organization means concentration of control over industry, and in the absence of social control organization confers upon those who sit in the centers of management the power to exploit, not only the laborers, but also the investors and perhaps most of all the consumers.

We must pause here to consider "the specific productivity theory" which, as was remarked in our introduction, is the form of defense for a policy of *laissez faire* just now in vogue. That theory asserts that if we had unlimited competition, then capital and labor each would automatically receive just what each produces. As a substitute for that theory let me ask you to consider what may be called *the organic theory of distribution,* based on the following considerations:

[4] *American Economic Review,* V, 536.

First, in an organized industry it is the organization as a whole that produces, and it is impossible to pick out a definite share in the product that should be ascribed to capital or to labor, just as it is impossible to say what per cent of my utterance is attributable to the lungs and diaphragm and what per cent to the mouth and throat.

Second, when we thought that we identified the share *produced* by one factor in organized industry, what we really did was to recognize the share *conditioned* by that factor, which is a very different thing. The factors in an organization are so dependent on each other that the impairment of one factor may not only subtract from the product of the organization what that factor produced, but may also impair the productivity of the remaining factor. The specific productivity theory goes wrong at the start by assuming that what labor would produce with no-rent land and no-rent machinery is the specific product of labor when normally supplied with capital, and that all the balance of what is produced in normal industry is due to capital. Neither the product of labor nor of capital can be measured in that way. By almost wholly withdrawing one factor in organization you can find out something about what that factor *conditions*—that is, what could not be produced without it—but you find out in that way nothing definite about what that factor produces when the two are working together normally. The amount conditioned by one factor in an organization is normally greater than the amount *produced* by that factor. Thus one essential nut in a locomotive *conditions* the movement of an express train; but it would be absurd to say that the *nut produced* the movement of the train. If you pay for one factor according to what it *conditions* there will not be enough left to pay the other factor according to what it *produces*. In an organization the factor that can most easily be withheld (in industry, capital) is in a position to hold up the whole process and demand approximately all that it conditions and to rob the factor that can least easily be withheld (in industry, common labor). To pay the owner of capital all the difference in product that his capital *conditions* is to pay him part of what labor *produces*. Thus goes by the board the whole theory of rent and of current interest—not indeed as an explanation of what happens, but as a justification for what happens.

Interest on perishable capital goods is less obviously exploitative than rent on land, because the former must be renewed out of

interest. But if, as leading teachers of the specific productivity theory hold, capital renewed out of its own earnings becomes eternal, it soon outlives those who are entitled to wages of abstinence, so that any further use of interest for purposes of consumption becomes exploitative.

According to the specific productivity theory free competition eliminates pure profits. This contention becomes relatively unimportant if rent and interest can be exploitative. However, it is worth noting that the elimination of profits even by the freest competition is very doubtful. Adequate investigation would probably show that those instances in which capital is not "fluid," instead of being negligible exceptions, really are the rule.

The question whether free competition would eliminate pure profits is not only rendered extremely doubtful by the fact that under the freest competition capital is not fluid, and rendered relatively unimportant by the fact that rent and interest can be exploitative, but is at present merely academic. Pure profits have not been eliminated. As nearly as we can tell from the census, profits, in times of peace, amount to 27.5 per cent of the total national income, or 58 per cent as much as all wages and salaries.

We do not have and probably cannot get that unlimited competition without which the specific productivity theory has no claim to validity. Every defense of *laissez faire* implies free competition, but a policy of *laissez faire* ultimately destroys free competition. Even if social control, which is the opposite of *laissez faire*, did its utmost to preserve unlimited competition it is doubtful whether we could get it. How will you make men compete when they find it more profitable to have an understanding? If we did get unlimited competition we should do so at enormous sacrifice of efficiency in organization. Such competition and bad business habits surviving from former competition as we now have cost us hundreds of millions annually, and at this moment are causing business men like Mr. Frank Vanderlip and economists like Professor H. C. Adams to call for social control to check competition in order to avoid the wastes that diminish our efficiency for war. If we *could* get unlimited competition at the enormous sacrifice of efficiency which it would involve, probably it would not eliminate pure profits; even if it did eliminate pure profits it might depress wholesale prices till labor could not be paid a decent wage; at the same time, since retail buyers are relatively inefficient competitors, it would not lower retail prices so as correspondingly to

enhance the purchasing power of wages; and rent and interest could still be exploitative.

The only way to secure justice to labor is to get away from the effects of unlimited competition. The specific productivity theory is right in pointing out that under free competition the wage of any class of laborers sinks to the level of the least productively employed labor in that class, or that can enter that class.

From all the causes above set forth it is clear that there is no reasonable meaning in the theory that under free competition labor would receive its specific product. The organic theory of distribution is that the specific product of one factor in organization is not automatically distinguishable from the product of the organization as a whole; that what a factor in organization *conditions* is an absolutely illogical test of what it *produces* or of what it should receive; that under private ownership it is expedient to pay for the use of land and capital enough to prevent their withdrawal from productive use; but that only men—whether laborers or capitalists—have rights, and that distribution of products among the men who participate in production presents a problem in equity that can be logically solved only by principles of justice and expediency formulated by intellectual leaders, and established in custom as well as in law.

We have now arrived at our third proposition, namely, that the time has come when we are justified in hoping for a considerable measure of success in a courageous and constructive program for the social control of the acquisition of wealth.

The power of law and custom to affect the distribution of wealth has been sufficiently demonstrated by experience. Even an institution so repugnant to the principles of justice and the instincts of human nature as the law of primogeniture can be made to work, provided it has the sanction of public opinion. And it has gone far in promoting and perpetuating the concentration of wealth in England.

The power of custom, even unaided by law, to standardize prices is illustrated by the facts I have cited concerning bread and beer and a large class of important articles of daily consumption.

Our business magnates have defended the operation of economic tendency in their dealings with labor, but have often defied and controlled it in their dealings with one another, with investors, and with the consumers. Consequently the colossal fortunes and

absurd concentration of wealth in our new country do not more aptly illustrate the natural effects of unregulated competition than they do the power of artificial control over competition. They illustrate the fact that the ultimate economic tendency is the disposition of economic tendency to defeat itself by enlisting for its own abatement the agencies of control. And the broadest generalization upon this theme that is justified by the facts of experience is this, that the policy of *laissez faire*, or unregulated individualism, is inherently a temporary policy, a policy that is sure to make itself intolerable—intolerable, first, to the great survivors of the competitive struggle who temporarily have profited by it but who continue to prosper only by controlling it; and intolerable, secondly, to the masses who have temporarily been exploited by it, and who slowly but surely become sufficiently enlightened and sufficiently organized to unite in securing their freedom from its exploitation.

Experiments in the control of the acquisition of wealth in the interest of society at large have not yet been carried as far as experiments in its control in the interest of the ruling economic class. Yet they have accomplished enough to demonstrate that there is nothing illogical or visionary in talking about the control of the acquisition of wealth in the interest of social policy. It is hardly open to reasonable doubt that society *could* socialize the unearned increment or even the rental value of land—and that without serious injustice to present owners and without impairing the right of occupancy of their heirs. Nor is it open to serious doubt that society *could* extend the policy of public ownership of capital; or that society *could* further limit the transmission of wealth by inheritance; or that society *could* greatly extend the sphere of operation of minimum wage boards; or that society *could* diminish the opportunity to swell private fortunes by banking and dealing in corporate securities; or that society *could*, without necessarily assuming the conduct of manufactures, become the only jobber and retailer and so eliminate the waste of competitive merchandising and secure the absolute control of prices. I am surprised that no one seems to have proposed and advocated this simple and effective method of securing social control of industry.

It would be out of the question in the moments remaining to attempt the advocacy of any specific methods for social control of the acquisition of wealth.

I have now discussed, as far as time allowed, the three proposi-

tions: First, that while rightly and inevitably there will be differences between the possessions of different men, these inequalities may become excessive and in fact they have become excessive to the point of absurdity. Second, without the exercise of social control over the acquisition of wealth, such excessive inequalities are inevitable and not only sure to continue but likely to grow worse. Third, the time has come when we are justified in hoping for a considerable measure of success in a courageous and constructive program for the social control of the acquisition of wealth.

Permit me to add a few observations by way of conclusion.

First, the production of wealth without reasonable distribution of it does not constitute economic success for the nation. However much we may extend our railway mileage, increase our balance of trade, and swell our bank clearances, still our economic system is mostly a failure if 2 per cent of the people are inundated with income while for lack of a reasonable distribution of wealth hundreds of thousands annually die needless deaths and millions more live stunted, perverted, and blighted in body and in mind, and the middle class declines. The problem of production we have *measurably* solved. The problem of distribution now confronts us.

Second, this problem can never be solved as a mere problem in exchange—in unregulated bargaining; *neither can it be solved by the mere passage of laws.* Its solution depends also upon public opinion, which may be misguided and supine; upon custom, which may be an outgrown survival unadapted to the exigency of the present; and upon morality, which may be only embryonic at this point. History shows repeated and impressive instances in which what had been wholly impracticable became practicable when, and only when, the requisite change was made in the state of mind of the public.

Third, to permit the heaping up of swollen fortunes, not only inflicts upon the nation an economic injury, but also perverts the standards of ambition and misdirects the national energies. The ambitious strive for success as success is defined by the society to which they belong. American society can have that type of achievement which it most highly rewards and appreciates in any amount and degree up to the very limits of human possibility. We can have science, art, literature, incorruptible administration over the affairs of our cities, and social organization which makes the joys and worth of human life accessible to every normal citizen,

provided such achievements command our highest rewards and our most pronounced approvals. There may have been a time when the organization of production was our prime need. It is so no longer; and if we continue to offer to business success such disproportionate rewards, that will be a potent factor for the abortion of our national development.

It even perverts our conception of success in business itself. We assume without question that business success is measured by acquisition, not by production. Yet this attitude of ours is an absurdity. We measure the success of a captain of industry, not by the welfare of the detachment in the army of industry which he commands, not by the production of utilities which his detachment in the army of industry pours into the current of the nation's economic life, but we measure it by the amount that he can appropriate to himself out of the utilities created by the nation's industry. Usually he contributes something in return for all he takes, sometimes he contributes much, and sometimes, as in the case of the mere speculator, it is impossible to prove that he contributes anything. In any case it is not what he produces but what he takes that is the popular measure of his success. That this absurd standard for the judgment of success seems to us normal and inevitable is an exhibition of the degree to which the present disorganization of distribution has perverted our own minds.

Fourth, money is power. Sovereignty is nothing more nor less than the predominant power. All government is an exercise of power. When predominant power is exercised by one class we have autocracy or oligarchy; when it is exercised by the responsible agents of the people according to forms devised by the responsible agents of the people, we have democracy. Power is of three kinds: first, physical force represented by the policeman's billy and the soldier's bayonet; second, money is power; third, knowledge is power.

Ancient despotisms rested mainly upon physical force, upon militarism. The first development of democracy was to remove from any one class of society the exercise of predominant physical force. This first step is a great accomplishment. The forms of freedom which we now cherish provide fairly well for liberty from arbitrary physical compulsion. The second form of power, the power of money, is exercised by governments chiefly through the funds raised by taxation and by the imposition of fines. It is a

maxim of political science that where the taxing power resides there resides the sovereignty. A few dozen Americans exercise a taxing power which emperors might envy, and millions of other Americans live under the control of economic pressure in comparison with which the pressure exercised by the laws that are enforceable by fines is slight. Because of this economic pressure, our carefully protected freedom from physical compulsion, our freedom *de jure*, is often accompanied by unfreedom *de facto*. A distinguished member of the American Economic Association has written: "Whoever controls the property of a nation becomes thereby the virtual ruler thereof." And nearly three-fifths of the property of the United States is declared to be in the possession of 2 per cent of its people. I am not responsible for these facts and only state them. We are all responsible if we do not face them.

The third form of power is the power of ideas. Only provide the organization for forming and expressing the common will and the dictum of Comte becomes practically true: "Ideas rule the world." The theory of democracy is that when discussion is free those ideas which accord with the facts in the long run will win public assent, so that public action will be an adaptation to the requirements of the actual situation. The schools and the press are the chief agencies by which the facts are discovered and given to the public; therefore the schools and the press are the citadels of democracy. To have the schools and the press controlled in the interest of a class would be little if anything short of abandoning the hope of fulfilling the purposes of democracy. To have the great dailies owned by those who have been brought up under the influence of the opinion-complex of one class is almost equivalent to giving to that class the autocracy of the nation. The sincerity with which that opinion-complex is held only increases the intolerance with which that power is exercised. Ruling classes are usually well convinced of their right to rule. Mere assertion and assumption reiterated in the public ear have power to form the public mind, still more if backed by biased discussion and a biased presentation of facts.

It betokens an unnatural and artificial situation, resulting from class control of the organs of opinion, that in this democracy we have no great liberal party. The conservatives appear to have captured the "machines" of both of the great political organizations. If one of them and its organs of publicity should become

cautiously but courageously and constructively liberal, it would come into scarcely disputed power. The public of a democracy naturally divides into three groups. First is the conservative group, largely composed of elegant, cultivated, and kindly people who assent to only such minimum concessions in the direction of increased democracy as are forced from them, as the condition of keeping in the main the *status quo*. At the other extreme are the malcontents and the radicals, who also may think themselves just but who care for little save the interest of their own group, and are willing to resort to vagaries or even to violence. Between them is a truly liberal group not, on the one hand, grudgingly yielding concessions nor, on the other hand, tolerating violence or incautious experiments, but courageously and constructively seeking for justice and the gradual realization of the nearest feasible approach to the fulfilment of the ideals of democracy. To this third group, swayed by no partisan consideration but governed solely by knowledge of the facts and regard for the public good, the members of our two associations should naturally belong.